

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
CLERK**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

EXAMINATION OF THE ELLIOTT COUNTY CLERK

**For The Year Ended
December 31, 2003**

The Auditor of Public Accounts was engaged to audit the Elliott County Clerk for the year ended December 31, 2003. We have disclaimed an opinion on the financial statement. The County Clerk has serious weaknesses in her accounting function. The County Clerk did not maintain an accurate receipts ledger, a disbursements ledger, nor was her financial statement accurate. In addition, the Clerk has serious weaknesses in the design and operation in her internal controls due to the County Clerk not monitoring daily activity and reviewing work completed by her employees. Furthermore, the high fraud risk factors associated with the engagement prevent us from expressing an opinion on the County Clerk's financial statement.

Financial Condition:

There were no excess fees for calendar year 2002 and calendar 2003. Revenues increased by \$32,658 from the prior year and expenditures increased by \$39,646.

Report Comments:

- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Expenditures
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit of \$31,642 In Her Fee Accounts
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Maintain Accurate Ledgers Needed To Prepare An Accurate Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT.....	1
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS	3
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS	6
COMMENTS AND RECOMMENDATIONS.....	11
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	21



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
The Honorable Reed S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Independent Auditor's Report

We were engaged to audit the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the County Clerk of Elliott County, Kentucky, for the year ended December 31, 2003. This financial statement is the responsibility of the County Clerk.

During our engagement we noted the County Clerk had serious weaknesses in her financial reporting function. The County Clerk did not maintain an accurate receipts ledger or a disbursements ledger needed to prepare the financial statement accurately. In addition, the County Clerk has serious weaknesses in the design and operation in her internal controls due to the County Clerk not monitoring daily activity and reviewing work completed by her employees. Furthermore, the high fraud risk factors associated with the engagement prevent us from expressing an opinion on the County Clerk's financial statement.

Because of serious weaknesses in the financial reporting function and serious weaknesses in the design and operation of internal controls due to the County Clerk not monitoring the activity of her office and because audit risk is at an unacceptable level, the scope of our audit was not sufficient to enable us to express, and we do not express, an opinion on the financial statement referred to in the first paragraph.

We were engaged to audit the financial statement referred to above for the purpose of forming an opinion on the financial statement. The schedule of excess of liabilities over assets is presented for purposes of additional analysis, and is not a required part of the financial statement. As discussed in the third paragraph above, the scope of our work was not sufficient to enable us to express an opinion on the financial statement. Similarly, we are unable to express and do not express an opinion on the schedule of excess of liabilities over assets.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2004, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.



The Honorable Charles Pennington, Elliott County Judge/Executive
The Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Based on the results of our work performed, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Expenditures
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit of \$31,642 In Her Fee Accounts
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Maintain Accurate Ledgers Needed To Prepare An Accurate Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Clerk and Fiscal Court of Elliott County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Grants	\$	2,760
--------------	----	-------

Licenses and Taxes:

Motor Vehicle-

Licenses and Transfers	\$	129,141
Usage Tax		208,859
Tangible Personal Property Tax		284,134

Licenses-

Marriage		1,829
----------	--	-------

Deed Transfer Tax		4,862
-------------------	--	-------

Delinquent Tax	41,680	670,505
----------------	--------	---------

Fees Collected for Services:

Recordings-

Deeds, Easements, and Contracts	\$	7,329
Real Estate Mortgages		6,156
Chattel Mortgages and Financing Statements		20,036
Powers of Attorney		190
All Other Recordings		2,775

Charges for Other Services-

Candidate Filing Fees	2,687	
Copywork	979	40,152

Other:

VTR	\$	1,818
Miscellaneous		5,145

Borrowed Money		8,550
----------------	--	-------

Total Revenues	\$	727,112
----------------	----	---------

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Motor Vehicle-

Licenses and Transfers \$ 97,154

Usage Tax 199,614

Tangible Personal Property Tax 106,569

Licenses, Taxes, and Fees-

Delinquent Tax 4,950

Legal Process Tax 6,504 \$ 414,791

Payments to Fiscal Court:

Tangible Personal Property Tax \$ 34,086

Delinquent Tax 8,069

Deed Transfer Tax 4,792 46,947

Payments to Other Districts:

Tangible Personal Property Tax \$ 135,119

Delinquent Tax 19,689 154,808

Payments to Sheriff

2,705

Payments to County Attorney

6,194

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 18,319

Part-Time Salaries 4,650

Contracted Services-

Printing and Binding 1,207

Materials and Supplies-

Office Supplies 1,262

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Other Charges-

Conventions and Travel	\$	1,385
Bank Charges		266
Postage		1,825
Printing Tax Bills		1,288
Refund		439
Library and Archive Expenditures		2,760
Miscellaneous		2,514

Capital Outlay-

Office Equipment		<u>403</u>	\$	36,318
------------------	--	------------	----	--------

Total Expenditures \$ 661,763

Less: Disallowed Expenditures

Travel Expenses	\$	76
Office Supplies		<u>155</u>

Total Disallowed Expenditures 231

Total Allowable Expenditures \$ 661,532

Net Revenues Before County Clerk's Statutory Maximum Salary
and Expense Allowance \$ 65,580

Less: Statutory Maximum Salary and Expense Allowance 62,799

Net Revenues \$ 2,781

Less - Payable to the:

State for Usage Tax \$ 1,391

Less - Payable:

for Borrowed Money 8,550

Less - Unexplained Variance 239 10,180

Deficit (7,399.00)

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS

December 31, 2003

Assets

Cash in Bank:

2001 Fee Account	\$ 1,461
2002 Fee Account	3,957
2003 Fee Account	33,360

Deposits in Transit	11,743
---------------------	--------

Receivables:

Due From the 2001 Fee Account for Payment of 2001 Amounts Due By 2002	6,196
---	-------

Total Assets	<u>\$ 56,717</u>
--------------	------------------

Liabilities

Paid Obligations-

Outstanding Checks	\$ 42,561
--------------------	-----------

Total Paid Obligations	\$ 42,561
------------------------	-----------

Unpaid Obligations for 2001:

Tangible Personal Property Tax -

County	\$ 2,702
Health	414
Extension	551
Ambulance	828
School	7,790

County Clerk-

Due From the 2001 Fee Account for		
Payment of 2001 Amounts Due By 2002	<u>6,196</u>	\$ 18,481

Unpaid Obligations for 2002:

Tangible Personal Property Tax -

County	\$ 622
Health	433
Extension	577
Ambulance	1,439
School	8,155

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 SCHEDULE OF EXCESS OF LIABILITIES OVER ASSETS - REGULATORY BASIS
 December 31, 2003
 (Continued)

Liabilities (Continued)

Unpaid Obligations For 2002 (Continued):

Delinquent Tax -

State Treasurer	\$	389
County		325
Health		82
Extension		90
Ambulance		171
School		1,212
Soil Conservation		60
Solid Waste		56
County Attorney		527
Sheriff		237

Legal Process Tax -

State Treasurer		696
-----------------	--	-----

Deed Transfer Tax -

County		1,090
--------	--	-------

County Clerk -

Additional Salary Due For Training Incentive	<u>1,215</u>	\$	17,376
--	--------------	----	--------

Unpaid Obligations For 2003:

Usage Tax -

State Treasurer	\$	1,391
-----------------	----	-------

Clerk -

Loan from Clerk for 2003	<u>8,550</u>	<u>9,941</u>
--------------------------	--------------	--------------

Total Unpaid Obligations		\$	<u>45,798</u>
--------------------------	--	----	---------------

Total Liabilities		\$	<u>88,359</u>
-------------------	--	----	---------------

Total Fund Deficit as of December 31, 2003		\$	<u><u>(31,642)</u></u>
--	--	----	------------------------

THIS PAGE LEFT BLANK INTENTIONALLY

COMMENTS AND RECOMMENDATIONS

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2003

STATE LAWS AND REGULATIONS:

1. The County Clerk Did Not Publish Her Financial Statement As Required By Law

The County Clerk did not publish her annual financial statement. KRS 424.220 requires the Clerk's annual financial statement to be published within 60 days after the close of the calendar year. We recommend the County Clerk publish her annual financial statement within 60 days after the calendar year end.

County Clerk's Response:

2002 was unable to complete due to the theft that was in 2001 and 2002 by the Deputy. 2003 was not completed due to the illness of my bookkeeper.

Auditor's Reply:

As the auditors were able to use the reports, cancelled checks and other information obtained by outside parties during the audit, the County Clerk could also have used these items to prepare a financial statement and publish this statement. The County Clerk, however, did not.

2. The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development

The County Clerk did not prepare a quarterly report during calendar year 2003, nor did she submit the reports to Governor's Office for Local Development (GOLD) as required. GOLD requires clerks to prepare and submit to them a report for every quarter accumulatively for each calendar year. We recommend the County Clerk prepare her quarterly report and submit it to GOLD as required.

County Clerk's Response:

2002 was unable to complete due to the theft that was in 2001 and 2002 by the Deputy. 2003 was not completed due to the illness of my bookkeeper.

Auditor's Reply:

As the auditors were able to use the reports, cancelled checks and other information obtained by outside parties during the audit, the County Clerk could also have used these items to prepare a quarterly report and present it to GOLD. The County Clerk, however, did not.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

3. The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court

The County Clerk did not present her annual settlement to the fiscal court. KRS 64.152 requires the County Clerk to present an annual settlement and to settle excess fees with the fiscal court by March 15th of each year. We recommend the County Clerk present her annual settlement to the fiscal court and pay excess fees by March 15th of each year.

County Clerk's Response:

There were no excess fees due to the theft of the office for the year 2002. We had to borrow money personally to pay employee, as there were no excess fees.

Auditor's Reply:

KRS 64.152 requires the presentation of an annual settlement regardless of whether or not there are excess fees.

4. The County Clerk Did Not Keep All Invoices To Support Expenditures

The Clerk should maintain documentation for all expenditures. In accordance with Funk vs. Milliken, documentation is necessary in order for disbursements to be allowable expenditures. Expenditures not supported by invoices may be disallowed and are subject to be repaid to the fee account from County Clerk's personal funds. Invoices were not provided for two out of the six expenditures tested for calendar year 2003. We have disallowed the two expenditures totaling \$231 due to invoices not being available to auditors. We recommend the County Clerk keep all invoices on file and they be made available to auditors for inspection.

County Clerk's Response:

The two invoices had been misplaced and were not available at the time they requested.

Auditor's Reply:

The County Clerk was given ample time to obtain invoices to support the expenditures.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

5. The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner

The County Clerk has not been preparing reports or paying the taxing districts timely as required. The County Clerk is required to present her annual settlement to the fiscal court; for the calendar years of 1999, 2000, 2001, 2002 and 2003, she did not present her annual settlement as required. Also, the County Clerk is required to publish her annual settlement in the newspaper for each calendar year; for calendar years 1999, 2001, 2002 and 2003, she did not publish her annual settlement. The County Clerk is required to pay delinquent taxes collected each month to the taxing districts. However, the Clerk has not prepared the December 2002 delinquent tax monthly report nor has she paid these taxes to the districts. The County Clerk is also required to pay tangible personal property tax to the Revenue Cabinet on a monthly basis. The December 2001 tangible personal property taxes of \$7,240 were paid to the Revenue Cabinet in full on November 5, 2002. However, the other taxing districts are still due \$12,285 for December 2001. Also, the December 2002 tangible personal property taxes of \$11,225 have not been paid to the districts. KRS 134.815(2) states that any county clerk who fails to pay over any taxes collected by him on motor vehicles shall be required to pay one percent (1%) for each thirty (30) day period or fraction thereof, plus interest at the legal rate per annum of such taxes. The County Clerk has not prepared or submitted legal process reports for March 2002 and December 2002 as required. Additionally, the County Clerk has also been told to keep all invoices for supporting documentation of expenditures. In the calendar years 2000, 2001, 2002 and 2003, all invoices were not made available to auditors.

The County Clerk is responsible for moneys collected from citizens of Elliott County and for disbursing these moneys to the appropriate entities. The County Clerk receives a commission on moneys collected to run her office and should pay the remainder to the taxing districts. We recommend that the County Clerk prepare her reports and pay taxing districts on a timely basis.

County Clerk's Response:

2002 bills have not been settled due to the claim being stop with KACO (our Bonding Co.). We always fax and get an extension if we're going to be late. The Fiscal Court or local boards may not know this.

Auditor's Reply:

The County Clerk did not provide the auditors with evidence of an extension. Also, as of the audit date, the above-mentioned issues have not been resolved.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

INTERNAL CONTROL – REPORTABLE CONDITIONS AND MATERIAL WEAKNESSES:

6. County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit of \$31,642 In Her Fee Accounts

County Clerk Reeda Ison has a cumulative deficit of \$31,642 in her fee accounts as of December 31, 2003. The calendar year 2003 deficit of \$7,399 is due to the County Clerk having received salary in excess of net receipts of \$7,160, plus an unexplained amount of \$239. The calendar year 2002 deficit of \$7,223 is due to undeposited tangible personal property tax receipts of \$7,377 less an unexplained amount of \$154. The calendar year 2001 deficit of \$17,020 is due to undeposited tangible personal property tax receipts of \$12,642, plus the County Clerk having received salary in excess of net receipts in the amount of \$3,945, plus an unexplained amount of \$433. We recommend the County Clerk deposit personal funds in the amount of \$7,399 to eliminate the deficit in the 2003 fee account, \$7,223 to eliminate the deficit in the 2002 fee account and \$17,020 to eliminate the deficit in the 2001 fee account. As of the audit date, the County Clerk has not eliminated the deficit in the 2003 fee account, in the 2002 fee account, or in the 2001 fee account.

County Clerk's Response:

KACO Bonding Co. of Louisville stated that Judge/Exec. Pennington told them to close out the claim that there was not enough evidence even though she plead guilty (Alfred Plea). I was told by KACO that Judge/Exec. Pennington said the Clerk had no authority to file the claim.

Auditor's Reply:

Recovering funds from the bonding company could have helped this issue for calendar years 2001 and 2002; it has nothing to do with the deficit for 2003 of \$7,399. The County Clerk is personally responsible for the deficit in her fee accounts.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

7. The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes

During our recap of delinquent tax reports, auditors noted inconsistencies in the preparation and distribution of these taxes. The County Clerk is not collecting the appropriate amount from taxpayers for delinquent taxes due to the fact she is not preparing the tax bills appropriately. The clerk is not adding a 20 percent county attorney fee for tax bills from 1997 and prior years. Also, the County Clerk, in some cases, is not adding her county clerk's commission to the amount due. Furthermore, the County Clerk is not distributing the appropriate amounts to the districts. We recommend the County Clerk prepare delinquent tax bills properly, collect the proper amount and pay the districts the proper amount.

County Clerk's Response:

I was never informed to collect the 20% for 1997 and prior years. I had not been informed to collect my commission of 10%. We will in the future collect the correct amount.

8. The County Clerk Did Not Monitor The Daily Activities Of Her Office

During audit procedures, we noted that the County Clerk was absent from her office frequently. She would leave her deputy clerk to maintain and take care of the office. During calendar years 2001 and 2002, a former deputy clerk was able to manipulate and falsify accounting records that resulted in moneys being stolen from the clerk's office. Had the County Clerk been monitoring the activity of her office this could have been prevented or detected earlier. However, on several occasions during past audits and the current audit, auditors noticed the County Clerk's infrequent attendance in her office. This indicates the County Clerk's disregard for completing her duties as required by law. Since the County Clerk had a former deputy clerk stealing money from her office, she should have taken a more active role in monitoring her office activities to prevent this from occurring in the future. We recommend the County Clerk monitor the daily activities of her office more closely.

County Clerk's Response:

During their audit I was on vacation and also keeping Dr. appointments in Lexington and Morehead. The Clerk is present unless sick. I am not required to stay in the office every minute, as long as the office is open.

Auditor's Reply:

The County Clerk's infrequent attendance has an effect on the operation of her office and has allowed a deputy clerk to manipulate and falsify tangible personal property tax receipts. It is the responsibility of the County Clerk to monitor her office and in so doing, prevention and detection of errors and fraud becomes more likely.

ELLIOTT COUNTY
REEDA S. ISON, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2003
(Continued)

9. The County Clerk Did Not Maintain Accurate Ledgers Needed To Prepare An Accurate Financial Statement

The County Clerk did maintain a receipts ledger, a disbursements ledger and prepare a financial statement as required. However, the auditors made many adjustments to the county clerk's financial information as noted below. The County Clerk obtained a computer during the current calendar year and began using a computer program to maintain her financial information. The County Clerk was not familiar with the workings of her computer system and had various deputy clerks, as well as persons unfamiliar with the county clerk's office, posting financial information to the computer. This resulted in numerous misclassifications, mispostings, and numerous receipts that were not posted at all. There were disbursements posted as negative receipts and receipts posted as negative disbursements. Additionally, \$15,575 of receipts recorded on the daily checkout sheets for January and February of 2003 was not posted to the receipts ledgers at all. In total, we adjusted the ledgers by \$258,812 in known errors for receipts and \$248,468 in known errors for disbursements. The County Clerk is required to keep records that comply with the uniform system of accounts. The uniform system of accounts requires revenues to be recorded when received and expenditures to be recorded when paid. We recommend the County Clerk maintain accurate ledgers in order to prepare an accurate financial statement and comply with the uniform system of accounts.

County Clerk's Response:

My Bookkeeper had surgery and has not been able to work. She since has been approved for disability.

Auditor's Reply:

Various deputies prepared ledgers and a financial statement for calendar year 2003; however, they were inaccurate and were not supported by bank records. Had the County Clerk been reviewing ledgers maintained by deputies she could have corrected and resolved the issues noted by auditors.

10. The County Clerk's Office Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness.

- The County Clerk should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. The County Clerk could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.

ELLIOTT COUNTY
 REEDA S. ISON, COUNTY CLERK
 COMMENTS AND RECOMMENDATIONS
 For The Year Ended December 31, 2003
 (Continued)

10. The County Clerk's Office Lacks Adequate Segregation Of Duties (Continued)

- The County Clerk should compare the quarterly financial report to receipts and disbursement ledgers for accuracy. Any differences should be reconciled. The County Clerk could document this by initialing the quarterly financial report.
- The County Clerk should compare periodically the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The County Clerk could document this by initialing the bank reconciliation and the balance in the checkbook.
- The County Clerk should monitor and supervise the assigned responsibilities of her staff.

County Clerk's Response:

There are only two of us and I do monitor and supervise the assigned duties.

Auditor's Reply:

The County Clerk did not provide auditors with evidence to support this.

PRIOR YEAR:

- The County Clerk Did Not Prepare Legal Process Reports Timely *
- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Disbursements
- The County Clerk Was Not Cooperative When The Auditors Requested Access To Her Records *
- The County Clerk Did Not Deposit Usage Taxes On A Daily Basis *
- A Former Deputy Clerk Manipulated And Falsified The County Clerk's Tangible Personal Property Results As A Result Of A Lack Of Segregation Of Duties In The County Clerk's Office *
- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit of \$24,243 In Her Fee Accounts
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Prepare Ledgers Or A Financial Statement
- The County Clerk's Office Lacks Adequate Segregation of Duties

* These comments have been resolved and are not repeated in the current audit.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Charles Pennington, Elliott County Judge/Executive
The Honorable Reeda S. Ison, Elliott County Clerk
Members of the Elliott County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We were engaged to audit the statement of revenues, expenditures, and excess fees - regulatory basis of the Elliott County Clerk for the year ended December 31, 2003, and have issued our report thereon dated September 9, 2004, wherein, we disclaimed an opinion on the financial statement based on inability to overcome the serious weaknesses in her financial reporting function, serious weaknesses in the design of internal controls, and because of high risk factors.

Compliance

As part of obtaining reasonable assurance about whether the Elliott County Clerk's financial statement is free of material misstatement, we performed tests of Elliott County Clerk's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Did Not Publish Her Financial Statement As Required By Law
- The County Clerk Did Not Prepare And Submit Her Quarterly Report To The Governor's Office For Local Development
- The County Clerk Did Not Present Her Annual Settlement To The Fiscal Court
- The County Clerk Did Not Keep All Invoices To Support Expenditures
- The County Clerk Did Not Prepare Her Reports And Pay Taxing Districts In A Timely Manner



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying comments and recommendations.

- County Clerk Reeda Ison Should Have Avoided The Cumulative Deficit Of \$31,642 In Her Fee Accounts
- The County Clerk Did Not Collect The Correct Amount For Delinquent Taxes
- The County Clerk Did Not Monitor The Daily Activities Of Her Office
- The County Clerk Did Not Maintain Accurate Ledgers Needed To Prepare An Accurate Financial Statement
- The County Clerk's Office Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2004

